

1. Which economic terms or concept do the following statements describe?

A sustained increase in the general level of prices caused by growth in the aggregate demand for goods and services exceeding growth in their aggregate supply

..... demand-pull inflation

A sustained increase in the general level of prices caused by rising costs of production

..... cost-push inflation

A sustained decline in the general level of prices in an economy due to a slump in demand

..... malign deflation

A slowdown in the rate at which prices are rising in general

..... disinflation

An economic situation characterized by high and rising unemployment and inflation

..... stagflation

A sustained increase in the general level of prices in an economy

..... price inflation

A measure of inflation that monitors the weighted average price of a basket of consumer goods and services regularly purchased by a 'typical' household

..... consumer price index; retail price index

Rising prices caused by an increase in the cost of imports following a fall in the value of the exchange rate of the importing country's currency

..... imported inflation

Rapidly rising inflation at phenomenal rates during which the currency ceases to be a store of value of acceptable medium of exchange

..... hyperinflation

The technique of adjusting certain payments by a price index to preserve their real value or purchasing power

..... indexation

2. From the data in the table on the rate of change in consumer prices, in which year did the economy experience

i) the highest rate of inflation? 2

ii) disinflation? 3

iii) deflation? 4

Year	% change in CPI
1	3.2%
2	5.4%
3	2.7%
4	-0.3%
5	1.4%
6	4.2%

- 3 The following data is for a basket of products used in the calculation of a consumer (or retail) price index at the end of last year.

Products	Average price (\$)	Proportion of household expenditure spent on each product (%)	Weighted average price (\$)
Food	\$70	60%	#42
Travel	\$40	15%	#6
Clothing	\$48	25%	#12
		Total = 100%	#60

In the previous year, the base year of the consumer price index, the weighted average price of the same basket of goods was \$50.

From the table calculate

- i) the weighted average price of the basket at the end of last year

#60

- ii) the CPI at the end of the last year

Base year = 100 (= #50); $\#60 / \#50 \times 100 = 120$

- iii) the rate of price inflation over the last year

20%

- 4 Suggest how the following may be affected by rising price inflation.

- i) A pensioner on a fixed pension income

Real value of income will fall

- ii) A person who has savings in a bank account

Real value of savings will fall unless interest rate is equal

to or greater than rate of inflation, or value of savings

is indexed to inflation

- iii) A firm that exports its products overseas

Exports will become less price competitive - overseas demand

may fall